

THE 1968 ANNUAL REPORT OF THE BOARD  
OF TRUSTEES OF THE FEDERAL OLD-AGE  
AND SURVIVORS INSURANCE AND  
DISABILITY INSURANCE  
TRUST FUNDS

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LETTER

FROM

BOARD OF TRUSTEES  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

THE 1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES  
OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
TRUST FUND AND THE FEDERAL DISABILITY INSURANCE  
TRUST FUND, PURSUANT TO THE PROVISIONS OF SEC-  
TION 201(c) OF THE SOCIAL SECURITY ACT, AS AMENDED



MARCH 26, 1968.—Referred to the Committee on Ways and Means  
and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE



## LETTER OF TRANSMITTAL

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BOARD OF TRUSTEES OF THE  
FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS,  
*Washington, D.C., March 25, 1968.*

The SPEAKER OF THE HOUSE OF REPRESENTATIVES,  
*Washington, D.C.*

SIR: We have the honor to transmit to you the 1968 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 28th such report), in compliance with the provisions of section 201(c) of the Social Security Act, as amended.

Respectfully,

HENRY H. FOWLER,  
*Secretary of the Treasury and  
Managing Trustee of the Trust Funds.*

W. WILLARD WIRTZ,  
*Secretary of Labor.*

WILBUR J. COHEN,  
*Acting Secretary of Health, Education, and Welfare.*

ROBERT M. BALL,  
*Commissioner of Social Security  
and Secretary, Board of Trustees.*



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# THE 1968 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND

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## THE BOARD OF TRUSTEES

The Federal old-age and survivors insurance trust fund, established on January 1, 1940, and the Federal disability insurance trust fund, established on August 1, 1956, are held by the Board of Trustees under the authority of section 201(c) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the managing trustee. The Commissioner of Social Security is secretary of the Board.

## FISCAL YEAR HIGHLIGHTS

Both benefit payments and contributions for the old-age and survivors insurance trust fund and the disability insurance trust fund continued to rise during fiscal year 1967, reaching higher levels in that year than in any previous year. The number of persons receiving monthly benefits under the old-age, survivors, and disability insurance program increased to 23.2 million by the end of June 1967. There were an estimated 85 million workers who had earnings in calendar year 1966 that were taxable and creditable toward benefits under the program, another record high.

For the old-age and survivors insurance trust fund, contributions in fiscal year 1967 amounted to \$22,567 million and were significantly larger—26 percent—than in the previous fiscal year, reflecting the impact of the provisions in the 1965 amendments which became effective on January 1, 1966 and (1) increased from \$4,800 to \$6,600 the amount of annual earnings taxable and creditable toward benefits and (2) increased the contribution rates for employees and employers, from 3.625 percent of taxable earnings to 3.85 percent each, and for the self-employed, from 5.4 to 5.8 percent. Other factors which contributed to the growth in contributions were (1) increases in the contribution rates, effective January 1, 1967, (2) the payment of estimated contributions on a quarterly basis by certain nonfarm self-employed persons, effective for taxable years beginning after December 31, 1966, and (3) the high level of employment and taxable earnings.

Total receipts of the old-age and survivors insurance trust fund amounted to \$23,371 million in fiscal year 1967. In addition to con-

tributions, receipts consisted of \$726 million in interest and profit on investments and \$78 million reimbursed from the general fund of the Treasury for the costs of benefits based on noncontributory credits for military service.

Total disbursements from the old-age and survivors insurance trust fund in fiscal year 1967 amounted to \$19,728 million. Of this amount, \$18,886 million was paid out for benefits, an increase of about 4½ percent over benefit payments in fiscal year 1966. Part of this increase resulted from the provision of benefits, effective for October 1966, for certain noninsured persons aged 72 and over under an amendment to the Social Security Act that was included in the Tax Adjustment Act of 1966, approved March 15, 1966. The provisions governing the financing of these benefits are described in appendix II.

The remaining disbursements consisted of \$508 million transferred to the railroad retirement account under the financial interchange provisions, \$334 million for administrative expenses, and \$88,000 for the cost of vocational rehabilitation services furnished to disabled adults receiving benefits from the old-age and survivors insurance trust fund on the basis of disabilities that have continued since childhood.

The excess of total income over total outgo, amounting to \$3,643 million, increased the total assets of the old-age and survivors insurance trust fund from \$19,872 million on June 30, 1966 to \$23,515 million on June 30, 1967.

The number of persons receiving monthly benefits from the old-age and survivors insurance trust fund at the end of the fiscal year was 21,148,000, about 7 percent more than at the beginning of the year. Some 14,881,000 of these persons were retired workers and their dependents, 5,538,000 were survivors of deceased workers, and 729,000 were noninsured persons aged 72 and over.

For the disability insurance trust fund, total receipts in fiscal year 1967 amounted to \$2,332 million. Of this amount, contributions amounted to \$2,249 million, nearly 45 percent more than in fiscal year 1966. This increase was partly due to the larger allocation of contributions to the disability insurance trust fund that went into effect on January 1, 1966, and was thus effective during all of fiscal year 1967. The remaining receipts consisted of \$67 million in interest and profit on investments and \$16 million reimbursed from the general fund of the Treasury for the costs of benefits based on noncontributory credits for military service.

Total disbursements from the disability insurance trust fund in fiscal year 1967 amounted to \$1,997 million. Benefit payments of \$1,861 million were about 8 percent higher than in the previous year. About \$31 million was transferred to the railroad retirement account. The remaining disbursements were composed of \$99 million for administrative expenses and \$7 million for the cost of vocational rehabilitation services furnished to disabled beneficiaries.

The excess of total income over total outgo, amounting to \$335 million, increased the total assets of the disability insurance trust fund from \$1,686 million on June 30, 1966 to \$2,022 million on June 30, 1967.

The number of disabled workers and their dependents receiving monthly benefits from the disability insurance trust fund increased to

2,060,000 by the end of fiscal year 1967, about 9 percent more than at the beginning of the year.

After the close of fiscal year 1967, Congress made extensive amendments to the Social Security Act and related sections of the Internal Revenue Code directly affecting the old-age, survivors, and disability insurance program. These amendments included an across-the-board increase in benefit amounts, benefits to certain new classes of beneficiaries, and a liberalization of the earnings test. The maximum amount of earnings taxable and creditable toward benefits was raised to \$7,800, beginning January 1968. The schedule of contribution rates for old-age, survivors, and disability insurance was revised to continue to reflect the intent of Congress that the program be self-supporting on a long-range basis. These and other provisions of the 1967 amendments are described more fully in another section of this report, and their effects are taken into account in the actuarial cost estimates presented in this report.

For the old-age and survivors insurance trust fund, estimates for the 5 fiscal years 1968-72 show that although both receipts and disbursements will increase steadily, the receipts will rise more rapidly, due to the increase in the maximum taxable earnings base in calendar year 1968 and to the scheduled rises in contribution rates in the law. Consequently, at the end of fiscal year 1972, this trust fund will amount to an estimated \$48.7 billion, or an increase of \$25.2 billion in the 5-year period. Receipts during fiscal year 1972 are estimated to total \$36.9 billion, and disbursements, \$27.8 billion.

Medium-range estimates, based on the assumption that economic activity will continue to expand throughout the period 1967-85, show continued increases in receipts, disbursements, and assets of the old-age and survivors insurance trust fund. According to these estimates, if the provisions of present law, as modified by the 1967 amendments, are assumed to remain unchanged, the assets of the trust fund will rise rapidly, reaching a total of \$316 billion at the end of calendar year 1985. On the other hand, if the maximum taxable earnings base and the benefit provisions of present law are assumed to be amended periodically so as to keep the program in line with changes in levels of average earnings, the assets of the trust fund will rise less rapidly, reaching a total of \$230 billion by 1985.

Long-range cost estimates for the old-age and survivors insurance program indicate that the program has a small positive actuarial balance. The level-cost of benefit payments and administrative expenses combined, estimated over a period of 75 years, ranges from 8.26 to 9.40 percent of taxable payroll. The intermediate-cost estimate is 8.77 percent of taxable payroll, as compared with the level-equivalent of the graded schedule of contribution rates that are allocated to this trust fund of 8.78 percent of taxable payroll.

According to estimates for the 5 fiscal years 1968-72, income of the disability insurance trust fund will rise more rapidly than disbursements because of the increases, effective in calendar year 1968, in the maximum taxable earnings base and in the contribution rate allocated to the fund. Consequently, this trust fund will amount to an estimated \$6.9 billion by the end of fiscal year 1972, an increase of \$4.8 billion in the 5-year period. According to the medium-range esti-

mates, the assets of the trust fund will reach \$32 billion by the end of calendar year 1985, if provisions of present law are assumed to remain unchanged. If, on the other hand, the maximum taxable earnings base and the benefit provisions of present law are amended periodically to keep pace with average earnings, the medium-range estimates indicate that the assets of the fund will reach \$20 billion by 1985.

Long-range estimates for the disability insurance trust fund show that the fund is in exact actuarial balance. Estimates of the level-cost, calculated over a 75-year period, range from 0.85 to 1.06 percent of taxable payroll. The intermediate-cost estimate is 0.95 percent of taxable payroll, the same as the level contribution rate that is allocated to this trust fund.

Two health insurance programs for persons aged 65 and over are related to the old-age, survivors, and disability insurance program: the hospital insurance program, which provides protection against the costs of hospital and related care, and the voluntary supplementary medical insurance program, which provides protection against the costs of certain medical and other health services (principally physicians' services). Each of these programs is financed through the operation of a separate trust fund. Summary descriptions of the provisions of, as well as statements of financial operations and actuarial cost estimates for, these two programs are contained in separate reports of the Boards of Trustees of the trust funds of these programs.

#### SOCIAL SECURITY AMENDMENTS OF 1967

The 1967 amendments to the Social Security Act and related sections of the Internal Revenue Code (Public Law 90-248, approved January 2, 1968) affect significantly both the immediate and long-range future levels of income and disbursements under the old-age, survivors, and disability insurance program. Benefit amounts were increased. Eligibility requirements for the payment of benefits were liberalized. Some modifications in the coverage provisions were made. The schedule of contribution rates was revised to continue to reflect the intent that the program be self-supporting.

The more important changes, significant from an actuarial standpoint, are presented below:

1. Larger benefits were made payable to future beneficiaries as well as to persons on the rolls:

(a) The maximum amount of earnings taxable and creditable toward benefits was raised to \$7,800 a year, beginning with 1968.

(b) Benefit amounts were increased by at least 13 percent, effective with benefits for February 1968. Except for certain beneficiaries aged 72 and over, the minimum primary insurance amount was increased from \$44 to \$55 per month. The maximum primary insurance amount of \$168 (based on average monthly earnings of \$550) that would have been payable under the law as in effect before the 1967 amendments was increased to \$189.90. For workers coming on the rolls in the future, benefits can be as high as \$218 per month, because of the higher earnings base. However, the maximum benefit of \$218, based on the maximum possible average monthly earnings of \$650, will not become generally payable for some years to come. The maximum family benefit

that will be payable on the basis of average monthly earnings of \$650 is \$434.40 per month.

(c) The minimum full-rate benefit for a family containing only one survivor beneficiary is \$55 per month (except in the case of a transitional insured widow aged 72 or over).

(d) The amount of the wife's or dependent husband's benefit is limited to a maximum of \$105 per month. This limitation does not affect anyone now on the rolls, and will not become generally effective until after a number of years.

(e) Effective February 1968, monthly benefits for transitional insured persons aged 72 and over were raised from \$35 to \$40 in the case of a worker or widow beneficiary, and from \$17.50 to \$20 in the case of a wife beneficiary.

(f) Effective February 1968, monthly benefits for transitional noninsured persons aged 72 and over were raised from \$35 to \$40 in the case of a single beneficiary, and from \$52.50 to \$60 in the case of a couple. As under prior law, all of these payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement from the general fund of the Treasury for the costs of payments to those noninsured persons who have less than three quarters of coverage.

2. The conditions under which persons may become eligible for benefits were liberalized:

(a) Effective February 1968, a female worker who is fully insured at time of death, disability, or retirement is no longer required to be also currently insured at such time in order (i) for a child to be deemed dependent on her (and thus able to become entitled to monthly benefits without establishment of actual dependency), or (ii) for a dependent husband or widower to be able to become entitled to monthly benefits.

(b) Effective February 1968, reduced benefits were made payable to disabled widows (and disabled surviving divorced wives) at ages 50 to 59 and to dependent disabled widowers at ages 50 to 61. The benefit amount is reduced, according to the person's age at entitlement, ranging from the full-rate benefit of 82½ percent of the deceased spouse's primary insurance amount where entitlement begins at age 62, down to 71½ percent at age 60, and from there, scaling down to 50 percent where entitlement begins at age 50. The widow or widower must become totally disabled either before or within 7 years after the spouse's death or, in the case of a widowed mother, either before or within 7 years after the end of her entitlement to benefits as a mother. The test of disability for disabled widows and widowers is more restrictive than for disabled workers. Determinations of disability in the case of a widow or widower will be made solely on the level of severity of the impairment (without regard to such factors as age, education, and work experience, which are considered in disabled-worker cases). The disabling impairment must be of a level of severity sufficient to preclude an individual from engaging in "any gainful activity" (as distinguished from "substantial gainful activity").

(c) The insured-status requirements for eligibility for disability insurance benefits were liberalized for workers disabled before age 31 by providing an alternative to the provision requiring

that the disabled worker have at least 20 quarters of coverage out of the 40 calendar quarters preceding disablement. Under this alternative, if the disability occurs after attainment of age 24 and before age 31, then at least half the quarters in the period beginning with the calendar quarter following attainment of age 21 and ending with the calendar quarter in which the disability occurs must be quarters of coverage. (If the number of quarters in this period is an odd number, then it is reduced by one.) If the disability occurs before age 24, then at least six of the quarters in the 12-quarter period ending with the quarter in which the disability occurred must be quarters of coverage. The first month for which benefits were payable under this alternative provision was February 1968.

3. The earnings (retirement) test was amended, effective for taxable years ending after December 31, 1967. The provision for withholding benefits from beneficiaries under age 72 whose earnings exceed \$1,500 a year was changed so that benefits are withheld only when earnings exceed \$1,680 a year. Also, \$1 in benefits will be withheld for each \$2 of earnings between \$1,680 and \$2,880, rather than between \$1,500 and \$2,700 as under the law in effect before the 1967 amendments (\$1 in benefits will be withheld for each \$1 of earnings above \$2,880 instead of above \$2,700). The maximum amount of wages that a beneficiary may earn in a month and still receive all of his benefit for that month regardless of his annual earnings was raised from \$125 to \$140.

4. Effective for taxable years ending after December 31, 1967, the coverage basis of ministers was revised so as to cover clergymen except where the clergyman opts out on grounds of religious principle or conscience.

5. After December 31, 1967, the covered earnings of a person on active duty in the uniformed services (including active duty for training) are deemed to be \$300 more than his basic pay in a calendar quarter, except that the deemed additional covered earnings are \$100 when his basic pay in a calendar quarter is \$100 or less, and \$200 when his basic pay in a quarter is over \$100 but is not over \$200; the trust funds will be reimbursed from the general fund of the Treasury for the additional costs of paying the benefits resulting from these deemed additional earnings.

6. Changes relating to the financing of the old-age, survivors, and disability insurance program were made with the intent of assuring that it will continue to be self-supporting.

Under the new contribution rate schedule, the employee and employer rates each decreased from the 3.9 percent of taxable earnings applicable in 1967 to 3.8 percent as of January 1, 1968. (These decreases were exactly counterbalanced by increases in the contribution rate for hospital insurance.) In the future, increases are scheduled to occur in 1969, 1971, and 1973, when the ultimate rate of 5 percent is reached. There are corresponding changes in the self-employed contribution rate except that the ultimate rate of 7 percent in 1973 and thereafter has not been changed. Under the schedule as in effect before the 1967 amendments, the employee and employer rates would have increased in 1969 and in 1973, when an ultimate rate of 4.85 percent would have been reached.

The amendments increased the portion of the contribution rate allocated to finance benefits from the disability insurance trust fund. Effective January 1, 1968, the allocated rate was increased from 0.35 percent to 0.475 percent each for employees and employers. For the self-employed, the allocated rate was increased from 0.525 percent to 0.7125 percent.

Table 1 presents an estimate of the effect, expressed as level-costs in percent of taxable earnings, of the changes in the old-age, survivors, and disability insurance program that were made by the 1967 amendments.

TABLE 1.—CHANGES IN ESTIMATED LEVEL-COSTS AS PERCENT OF TAXABLE EARNINGS, BY TYPE OF CHANGE, INTERMEDIATE-COST ESTIMATE, 3.75 PERCENT INTEREST

| Item  | Old-age and survivors insurance | Disability insurance |
|---|---------------------------------|----------------------|
| Benefit cost of program in effect before 1967 amendments <sup>1</sup> .....                   | 7.91                            | 0.85                 |
| Effect of changes:  |                                 |                      |
| Additional income, less additional benefits, resulting from higher earnings base.....         | -.25                            | -.02                 |
| Increase in level of benefits.....  | .95                             | .10                  |
| Reduced benefits for disabled widows and widowers at age 50.....                              | .03                             |                      |
| Liberalized disability insured status requirements under age 31.....                          |                                 | .02                  |
| Liberalized eligibility requirements with respect to dependents of women workers.....         | .07                             | (?)                  |
| Liberalization of earnings (retirement) test.....   | .06                             | (?)                  |
| Benefit cost after enactment of 1967 amendments <sup>1</sup> .....                            | 8.77                            | .95                  |
| Level-equivalent of graded tax schedule before 1967 amendments <sup>3</sup> .....             | 8.80                            | .70                  |
| Effect of changes in tax schedule.....  | -.02                            | .25                  |
| Level-equivalent of graded tax schedule after enactment of 1967 amendments <sup>3</sup> ..... | 8.78                            | .95                  |

<sup>1</sup> Based on valuation date of Jan. 1, 1967. Taking into account (a) lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate; (b) administrative expenses, and (c) interest on trust funds on hand as of Dec. 31, 1966.

<sup>2</sup> Less than 0.005 percent.

<sup>3</sup> Adjusted to reflect lower contribution rate on self-employment income and on tips, as compared with combined employer-employee rate.

### NATURE OF THE TRUST FUNDS

The Federal old-age and survivors insurance trust fund was established on January 1, 1940, as a separate account in the U.S. Treasury to hold the amounts accumulated under the old-age and survivors insurance program. All the financial operations which relate to the system of old-age and survivors insurance are handled through this fund. The Social Security Amendments of 1956, which became law August 1, 1956, provided for the creation of the Federal disability insurance trust fund—a fund entirely separate from the old-age and survivors insurance trust fund—through which are handled all financial operations in connection with the system of monthly disability benefits payable to insured workers and to their dependents.

The major sources of receipts of these two funds are (1) amounts appropriated to each of them under permanent appropriation on the basis of contributions paid by workers and their employers, and by individuals with self-employment income, in work covered by the old-age, survivors, and disability insurance program and (2) amounts deposited in each of them representing contributions paid by workers employed by State and local governments and by such employers with respect to work covered by the program. All employees and their employers in employment covered by the program are required to pay

contributions with respect to the wages of individual workers (cash tips, covered as wages beginning in 1966 under the 1965 amendments, are an exception to this; employees pay contributions with respect to cash tips, but employers do not). All covered self-employed persons are required to pay contributions with respect to their self-employment income. In general, an individual's contributions are computed on annual wages or self-employment income, or both wages and self-employment income combined, up to a specified maximum annual amount with the contributions being determined first on the wages and then on any self-employment income necessary to make up the annual maximum amount. The maximum amount of annual earnings to which the contribution rates are applied was \$6,600 in calendar years 1966 and 1967. Beginning with calendar year 1968, the maximum amount is \$7,800.

Under the Internal Revenue Code, as amended, the contribution rate for old-age, survivors, and disability insurance for employees and their employers of 3.85 percent each that was in effect in calendar year 1966 increased to 3.9 percent each on January 1, 1967; the contribution rate for the self-employed rose from 5.8 to 5.9 percent. The tax rates that have been in effect since 1937 and the maximum amount of annual earnings to which the rates applied are shown in appendix II.

The following table shows the scheduled tax rates in the present law :

| Calendar years      | Percent of taxable earnings                |               |
|---------------------|--|---------------|
|                     | Employees and employers, each <sup>1</sup> | Self-employed |
| 1967.....           | 3.9  | 5.9           |
| 1968.....           | 3.8  | 5.8           |
| 1969-70.....        | 4.2  | 6.3           |
| 1971-72.....        | 4.6  | 6.9           |
| 1973 and after..... | 5.0  | 7.0           |

<sup>1</sup> Only the employee tax is paid on tips that are taxable as wages.

<sup>2</sup> These decreases in rates from 1967 to 1968 were exactly counterbalanced by increases in the contribution rates for hospital insurance.

Under section 201(b) of the Social Security Act as amended in 1967, the contribution rate allocated to the disability insurance trust fund of 0.35 percent each for employees and employers, in effect in calendar years 1966 and 1967, increased to 0.475 percent each on January 1, 1968. For the self-employed, the allocation rate increased from 0.525 percent, in effect in calendar years 1966 and 1967, to 0.7125 percent in calendar year 1968.

Except for amounts received by the Secretary of the Treasury under State agreements (to effectuate coverage under the program for State and local government employees) and deposited directly in the trust funds, all contributions are collected by the Internal Revenue Service and are paid into the Treasury as internal revenue collections. However, sums equivalent to 100 percent of these taxes are transferred to the trust funds from time to time. Such transfers are first made on the basis of estimated tax receipts. The exact amount is not known since old-age, survivors, and disability insurance taxes, hospital insurance taxes, and income taxes withheld are not separately identified in tax-collection reports received by the Treasury Department from the district offices of the Internal Revenue Service. Periodic adjust-

ments are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable on the basis of reported earnings.

An employee who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum can receive a refund of the taxes he paid on such excess wages. The amount of taxes subject to refund for any period is a charge against each of the trust funds in the ratio in which the amount was appropriated to or deposited in such trust funds for that period.

Another source from which receipts of the trust funds are derived is interest received on investments held by the funds. The investment procedures of the funds are described later in this section.

The income and expenditures of the trust funds are also affected by the provisions of the Railroad Retirement Act of 1937, as amended, which provide for a system of coordination and financial interchange between the railroad retirement program and the old-age, survivors, and disability insurance program. A description of the legislative provisions governing the allocation of costs between the two programs appears in appendix II.

Sections 217(g) and 229(b) of the Social Security Act, as amended by the 1967 amendments, authorize annual reimbursements from the general fund of the Treasury to the old-age and survivors insurance and disability insurance trust funds for any costs arising from the granting of noncontributory credits for military service, according to periodic determinations made by the Secretary of Health, Education, and Welfare. A summary of the legislative history of the financing of noncontributory credits for military service performed before 1957 appears in appendix II.

Section 228 of the Social Security Act, as amended, provides monthly cash benefits to certain persons aged 72 and over, almost all of whom are not eligible for cash benefits under other provisions of the old-age, survivors, and disability insurance program. Under section 228, all payments are made initially from the old-age and survivors insurance trust fund, with later reimbursement from the general fund of the Treasury for the costs of payments to persons who have less than 3 quarters of coverage. A description of the legislative provisions governing the allocation of costs between the trust fund and the general fund of the Treasury appears in appendix II.

Under a decision of the Comptroller General of the United States (B-4906) dated October 11, 1951, receipts derived from the sale of surplus supplies and materials are credited to and form a part of the trust funds, where the initial outlays therefor were paid from the trust funds. Formerly, these moneys were credited to the general fund of the Treasury as miscellaneous receipts.

Under section 1106(b) of the Social Security Act, as amended, the Secretary of Health, Education, and Welfare is authorized to charge outside persons, agencies, and organizations for providing certain services not directly related to the old-age, survivors, and disability insurance program. The Social Security Administration has accumulated a unique body of information in the course of the administration of the program. Situations arise when it is in the public interest to use this information to perform certain services for outside parties, such

as the preparation of statistical tabulations for research purposes, when such services can be performed without violating the confidentiality of the records or interfering unduly with the administration of the program. Such services could not properly be provided at the expense of the trust funds. Receipts derived from performance of these services are equal to the cost of providing them; in some instances, the receipts are credited to the trust funds to counterbalance administrative expenses already paid from the trust funds (in which case such amount is netted out of the figures on administrative expenses in the financial statements of the trust funds), while in other instances such receipts are not credited to the trust funds, and the applicable administrative expenses are met directly from them. Accordingly, such administrative expenses, and the offsetting receipts, do not have any effect on the financial statements of the trust funds.

Expenditures for benefit payments and administrative expenses under the old-age, survivors, and disability insurance program are paid out of the trust funds. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the provisions of title II of the Social Security Act, as amended, and of the Internal Revenue Code relating to the collection of contributions, are charged to the trust funds. The Secretary of Health, Education, and Welfare certifies benefit payments to the managing trustee, who makes the payment from the respective trust funds in accordance therewith.

Section 222(d) of the Social Security Act, as amended, provides for reimbursement from the trust funds for the cost of vocational rehabilitation services furnished to disabled persons receiving benefits because of their disability. The total amount of funds that may be made available for purposes of reimbursement for such services may not, in any fiscal year, exceed 1 percent of the benefits certified for payment to these types of beneficiaries in the preceding year.

Congress has authorized expenditures from the trust funds for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included as part of administrative expenses in the financial statements of operations of the trust funds as set forth in subsequent sections of this report. The net worth of the resulting facilities—just as the net worth of all other capital assets—is not carried as an asset in such statements.

That portion of each trust fund which, in the judgment of the managing trustee, is not required to meet current expenditures for benefits and administration is invested in interest-bearing obligations of the U.S. Government, in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original

issue at the issue price or by purchase of outstanding obligations at their market price.

In addition, the Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The law requires that such special public-debt obligations shall have maturities fixed with due regard for the needs of the trust funds and shall bear interest at a rate based on the average market yield (computed by the managing trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. Where such average market yield is a multiple of one-eighth of 1 percent, this is taken as the rate of interest on such special obligations; otherwise such rate is the multiple of one-eighth of 1 percent nearest such market yield.

Interest on public issues held by the trust funds is received by the funds at the time the interest is paid on the particular issues held. Interest on special public-debt obligations issued specifically for purchase by the trust funds is payable semiannually or, if earlier, at redemption.

Marketable public issues acquired by the funds may be sold at any time by the managing trustee at their market price. Special public-debt obligations issued for purchase by the trust funds may be redeemed at par plus accrued interest. Interest receipts and proceeds from the sale or redemption of obligations held in the trust funds are available for investment in the same manner as other receipts of the funds. Interest earned by the invested assets of the trust funds will provide income to meet a portion of future benefit disbursements. The role of interest in meeting future benefit payments is indicated in tables 21 and 22.

In addition to serving as a source of income, the assets of the trust funds assure the continued payment of benefits without sharp changes in contribution rates during periods of short-run adverse fluctuations in total income and expenditures.

#### SUMMARY OF THE OPERATIONS OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, FISCAL YEAR 1967

A statement of the income and disbursements of the Federal old-age and survivors insurance trust fund in the fiscal year which began on July 1, 1966, and ended on June 30, 1967, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

The total assets of the old-age and survivors insurance trust fund amounted to \$19,872 million on June 30, 1966. These assets increased to \$23,515 million by the end of the fiscal year 1967, an increase of \$3,643 million.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967

|  |                         |                         |
|--|-------------------------|-------------------------|
| Total assets of the trust fund, June 30, 1966  |                         | \$19, 872, 235, 650. 35 |
| Receipts, fiscal year 1967:  |                         |                         |
| Contributions:   |                         |                         |
| Appropriations   | \$20, 994, 312, 207. 80 |                         |
| Deposits arising from State agreements   | 1, 835, 408, 473. 55    |                         |
| Gross contributions  | 22, 829, 720, 681. 35   |                         |
| Less payment into the Treasury for taxes subject to refund   | 262, 718, 875. 00       |                         |
| Net contributions  | 22, 567, 001, 806. 35   |                         |
| Reimbursement from general fund of the Treasury for costs of non-contributory credits for military service                       | 78, 000, 000. 00        |                         |
| Interest and profit:   |                         |                         |
| Interest and profit on investments   | 725, 327, 101. 43       |                         |
| Interest on administrative expenses reimbursed from—   |                         |                         |
| Hospital insurance trust fund  | 84, 145. 00             |                         |
| Supplementary medical insurance trust fund   | 989, 000. 00            |                         |
| Gross interest and profit  | 726, 400, 246. 43       |                         |
| Less interest on amounts transferred to disability insurance trust fund for reimbursement of—                                    |                         |                         |
| Administrative expenses  | 497, 170. 00            |                         |
| Cost of vocational rehabilitation services   | 2, 000. 00              |                         |
| Net interest and profit  | 725, 901, 076. 43       |                         |
| Total receipts   | 23, 370, 902, 882. 78   |                         |
| Disbursements, fiscal year 1967:   |                         |                         |
| Benefit payments   | 18, 885, 714, 203. 69   |                         |
| Transfers to railroad retirement account   | 508, 046, 000. 00       |                         |
| Reimbursement to disability insurance trust fund for cost of vocational rehabilitation services for disabled beneficiaries       | 88, 000. 00             |                         |
| Administrative expenses:   |                         |                         |
| Department of Health, Education, and Welfare   | 298, 108, 208. 31       |                         |
| Treasury Department  | 52, 422, 814. 66        |                         |
| Construction of facilities for Social Security Administration  | 1, 170, 516. 86         |                         |
| Reimbursement to disability insurance trust fund due to adjustment in allocation of administrative expenses for fiscal year 1966 | 10, 751, 385. 00        |                         |
| Gross administrative expenses  | 362, 452, 924. 83       |                         |
| Less receipts from sale of surplus supplies, materials, etc.   | 30, 019. 21             |                         |
| Less reimbursements for administrative expenses from—  |                         |                         |
| Hospital insurance trust fund <sup>1</sup>   | 2, 850, 292. 00         |                         |
| Supplementary medical insurance trust fund <sup>2</sup>  | 25, 541, 504. 00        |                         |
| Less reimbursement for construction from supplementary medical insurance trust fund  | 129, 889. 00            |                         |
| Net administrative expenses  | 333, 901, 220. 62       |                         |
| Total disbursements  | 19, 727, 749, 424. 31   |                         |
| Net addition to the trust fund   | 3, 643, 153, 458. 47    |                         |
| Total assets of the trust fund, June 30, 1967  | 23, 515, 389, 108. 82   |                         |

<sup>1</sup> Amount represents sum of (a) \$2,107,000 for a payment made initially from the old-age and survivors insurance trust fund in fiscal year 1967 for expenses of the Public Health Service and (b) \$743,292 due to adjustment in interfund allocation of expenses of the Department of Health, Education, and Welfare for fiscal year 1966.

<sup>2</sup> Amount represents sum of payments made initially from the old-age and survivors insurance trust fund amounting to (a) \$24,095,779 in fiscal year 1966 for expenses of the Department of Health, Education, and Welfare, (b) \$40,725 in fiscal year 1966 for expenses of the Civil Service Commission, and (c) \$1,405,000 in fiscal year 1967 for expenses of the Public Health Service.

Net receipts of the trust fund during the fiscal year 1967 amounted to \$23,371 million. Of this total, \$20,994 million represented tax collections appropriated to the fund and \$1,835 million represented amounts received by the Secretary of the Treasury in accordance with State agreements for coverage of State and local government employees and deposited in the trust fund. As an offset, \$263 million was transferred from the trust fund into the Treasury as repayment for the estimated amount of contributions subject to refund to employees who worked for more than one employer during the course of a year and paid contributions on wages in excess of the statutory maximum earnings base.

Net contributions amounted to \$22,567 million, representing an increase of 26 percent over the amount for the preceding fiscal year. This large increase resulted from (1) the increase in the maximum annual amount of earnings taxable from \$4,800 to \$6,600 that became effective on January 1, 1966, (2) the increase, from  $6\frac{3}{4}$  percent to 7 percent, in the combined employer-employee contribution rate allocated to finance benefits from the old-age and survivors insurance trust fund that also went into effect on January 1, 1966, (3) the increase in the combined employer-employee rate from 7 percent to 7.1 percent that became effective on January 1, 1967, (4) the requirement that certain nonfarm self-employed persons make estimated payments of their social security tax contributions on a quarterly basis effective for taxable years beginning after December 31, 1966 (instead of paying annually after the end of the taxable year), and (5) the high level of employment and taxable earnings. Although the first change became effective in 1966, fiscal year 1967 was the first full year during which it was operative.

Reference has been made in earlier sections to provisions under which the old-age and survivors insurance and disability insurance trust funds are to be reimbursed annually from the general fund of the Treasury for costs of granting noncontributory credits for military service performed before 1957. In accordance with these provisions, the Secretary of Health, Education, and Welfare determined, in September 1965, that the annual amount due for the old-age and survivors insurance trust fund was \$87.4 million, and for the disability insurance trust fund, \$18.4 million.

The first annual reimbursement, for fiscal year 1966, amounting to \$78 million for the old-age and survivors insurance trust fund and \$16 million for the disability insurance trust fund, was received in July 1966.

The remaining \$726 million of receipts consisted of net interest and profit on the investments of the fund.

Disbursements from the trust fund during the fiscal year 1967 totaled \$19,728 million. Of this total, \$18,886 million was for benefit payments, an increase of  $41\frac{1}{2}$  percent over the corresponding amount paid in the fiscal year 1966. This increase resulted from (1) the expected growth in the number of beneficiaries as the program gradually matures and the gradual upward trend in the average monthly amount of benefits under the program, (2) the amendments in March 1966 that provided monthly benefits, effective for October 1966, for certain noninsured persons aged 72 and over, and (3) the provisions of the 1965 amendments that liberalized the conditions under which persons could qualify for benefits effective for September 1965. (Fiscal year 1967 was the first full year during which these provisions of the 1965 amendments were operative.) On the other hand, the increase in benefit payments in fiscal year 1967 was smaller than it would have been had the benefit payments in fiscal year 1966 not included the portions of (1) the general benefit increase and (2) benefits to children aged 18–21 who qualified under the school-attendance provisions—both of which were provided by the 1965 amendments—that were paid in fiscal year 1966 but were attributable retroactively to months in fiscal year 1965.

Reference has been made in an earlier section to provisions of the Railroad Retirement Act which coordinate the railroad retirement

program with old-age and survivors insurance. A description of the legislative provisions governing the financial interchanges arising from the allocation of costs between the two systems is contained in appendix II. In accordance with these provisions, the Railroad Retirement Board and the Secretary of Health, Education, and Welfare determined that a transfer of \$490,900,000 to the railroad retirement account from the old-age and survivors insurance trust fund would place this fund in the same position as of June 30, 1966, as it would have been if railroad employment had always been covered under the Social Security Act. This amount was transferred to the railroad retirement account in May 1967, together with interest to the date of transfer amounting to \$17,146,000.

Expenditures, in the form of reimbursement to the disability insurance trust fund, for the cost of vocational rehabilitation services amounted to \$88,000. These services were furnished to disabled adults—dependents of old-age beneficiaries and survivors of deceased insured workers—receiving benefits from the old-age and survivors insurance trust fund on the basis of disabilities that have continued since childhood. (Related administrative expenses of the Department of Health, Education, and Welfare, amounting to \$7,000, are included in the net administrative expenses of the trust fund.)

The remaining \$334 million of disbursements from the old-age and survivors insurance trust fund represents net administrative expenses. This amount reflects the effect of a reimbursement, made in December 1966, for the administrative expenses of the Social Security Administration incurred in fiscal year 1966 under the supplementary medical insurance program and initially charged to the old-age and survivors insurance trust fund. The administrative expenses of the Social Security Administration that were incurred under the supplementary medical insurance program in fiscal year 1967, however, were charged directly to the supplementary medical insurance trust fund. Thus, the net amount of administrative expenses for the old-age and survivors insurance trust fund was lower in fiscal year 1967 than it would have been without the reimbursement from the supplementary medical insurance trust fund.

Net administrative expenses expressed as a percentage of contribution income and of benefit payments for each of the last 5 years is shown in table 3 for the old-age and survivors insurance and disability insurance trust funds combined, as well as for each trust fund separately. In order to make the method of calculating the percentages for fiscal year 1967 the same as the method used in prior years, the net amount of administrative expenses for the old-age and survivors insurance trust fund was adjusted upward by the addition of the amount of the reimbursement from the supplementary medical insurance trust

fund for administrative expenses of the Social Security Administration. The adjustments made to the net amounts of administrative expenses of, as well as the benefit payments from, the old-age and survivors insurance and disability insurance trust funds for calculating the percentages for fiscal year 1966 are described in the 1967 Annual Report of the Board of Trustees.

TABLE 3.—RELATIONSHIP OF NET ADMINISTRATIVE EXPENSES OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM TO CONTRIBUTION INCOME AND BENEFIT PAYMENTS, BY TRUST FUND, FISCAL YEARS 1963-67

| Fiscal year | Total   |                        | Old-age and survivors insurance trust fund  |                  | Disability insurance trust fund             |                  |
|-------------|---|------------------------|---|------------------|---|------------------|
|             | Total administrative expenses as a percentage of— |                        | Administrative expenses as a percentage of— |                  | Administrative expenses as a percentage of— |                  |
|             | Total contribution income                         | Total benefit payments | Contribution income                         | Benefit payments | Contribution income                         | Benefit payments |
| 1963.....   | 2.3   | 2.2                    | 2.0   | 1.9              | 6.2   | 5.7              |
| 1964.....   | 2.2   | 2.3                    | 2.0   | 2.1              | 5.9   | 5.4              |
| 1965.....   | 2.2   | 2.2                    | 1.9   | 1.9              | 6.7   | 5.5              |
| 1966.....   | 2.1   | 2.1                    | 1.8   | 1.8              | 5.8   | 5.4              |
| 1967.....   | 1.8   | 2.2                    | 1.6   | 1.9              | 4.4   | 5.3              |

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

In table 4, the experience with respect to actual amount of contributions and benefit payments in fiscal year 1967 and trust fund assets at the end of the year is compared with the estimates for fiscal year 1967 which appeared in the 1966 and 1967 Annual Reports of the Board of Trustees. The only amendments significant from a cost standpoint which were enacted during the period covered by these reports were those contained in Public Law 89-368. These amendments were enacted in March 1966 between the time of publication of the 1966 and 1967 reports. The effect of these amendments, as originally estimated at time of enactment, on the operations of the old-age and survivors insurance trust fund in fiscal year 1967, as shown in the 1966 report, would have been to increase contribution income and benefit payments by approximately 1 percent. Estimated contribution income of the disability insurance trust fund in fiscal year 1967 would, similarly, have been increased by about 1 percent; estimated benefit payments would not have been affected.

The estimates shown in the 1966 report (modified to take into account the effect of the legislation in 1966), particularly those of contributions and assets, were not as close, relatively, as the corresponding estimates shown in the 1967 report. This was due primarily to the fact that the levels of employment and taxable earnings in 1966 and 1967 were higher than had been anticipated when the 1966 report was prepared.

TABLE 4.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1967

[Amounts in millions]

|  | Actual amount | Comparison of actual experience with estimates for fiscal year 1967 published in— |             |
|--|---------------|---|-------------|
|  |               | 1967 report   | 1966 report |
| Old-age and survivors insurance trust fund |               |   |             |
| Net contributions:                         |               |   |             |
| Amount.....                                | \$22,567      | \$22,173  | \$20,358    |
| Estimate as percentage of actual.....      |               | 98  | 90          |
| Benefit payments:                          |               |   |             |
| Amount.....                                | \$18,886      | \$18,963  | \$19,064    |
| Estimate as percentage of actual.....      |               | 100   | 101         |
| Assets, end of year:                       |               |   |             |
| Amount.....                                | \$23,515      | \$23,071  | \$19,893    |
| Estimate as percentage of actual.....      |               | 98  | 85          |
| Disability insurance trust fund            |               |   |             |
| Net contributions:                         |               |   |             |
| Amount.....                                | \$2,249       | \$2,210   | \$2,029     |
| Estimate as percentage of actual.....      |               | 98  | 90          |
| Benefit payments:                          |               |   |             |
| Amount.....                                | \$1,861       | \$1,845   | \$1,782     |
| Estimate as percentage of actual.....      |               | 99  | 96          |
| Assets, end of year:                       |               |   |             |
| Amount.....                                | \$2,022       | \$2,012   | \$1,751     |
| Estimate as percentage of actual.....      |               | 100   | 87          |

Note. In interpreting the figures in the above table, reference should be made to the accompanying text.

The distribution of benefit payments in fiscal years 1966 and 1967, by type of beneficiary, is shown in table 5. Approximately 73 percent of the total benefit payments from the old-age and survivors insurance trust fund in the fiscal year 1967 was accounted for by monthly benefits to retired workers and their dependents and about 13 percent by monthly benefits to aged survivors of deceased workers. Approximately 12 percent of the benefit payments represented monthly benefits on behalf of children of deceased workers and monthly benefits to mothers who had children of deceased workers in their care.

Benefit payments to noninsured persons aged 72 and over, which began in November 1966, amounted to \$199.7 million, or about 1 percent of total benefit payments from the trust fund. (Reference has been made in an earlier section to the legislative provisions governing reimbursement from the general fund of the Treasury for the costs of such payments to persons who have fewer than three quarters of coverage.) Of this amount, \$198.5 million, or 99.4 percent, was paid to persons with fewer than three quarters of coverage. This amount, together with interest and the administrative expenses of making these payments, is authorized to be reimbursed to the trust fund in fiscal year 1969. The Budget Document of the United States for the fiscal year 1969 makes provision for this reimbursement.

The balance of the benefits paid consisted of lump-sum death payments.

TABLE 5.—ESTIMATED DISTRIBUTION OF BENEFIT PAYMENTS FROM THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, BY TYPE OF BENEFICIARY AND PAYMENT, FISCAL YEARS 1966 AND 1967

[Amounts in millions]

|  | 1966 <sup>1</sup> |                  | 1967       |                  |
|--|-------------------|------------------|------------|------------------|
|  | Amount            | Percent of total | Amount     | Percent of total |
| Total.....   | \$18,071.5        | 100              | \$18,885.7 | 100              |
| Monthly benefits.....                                  | 17,847.0          | 99               | 18,639.6   | 99               |
| Retired workers and their dependents.....              | 13,332.3          | 74               | 13,770.8   | 73               |
| Retired workers.....                                   | 11,675.0          | 65               | 12,108.2   | 64               |
| Wives and husbands.....                                | 1,447.3           | 8                | 1,447.5    | 8                |
| Children.....  | 210.0             | 1                | 215.2      | 1                |
| Survivors of deceased workers.....                     | 4,514.7           | 25               | 4,669.0    | 25               |
| Aged widows and widowers.....                          | 2,269.7           | 13               | 2,428.1    | 13               |
| Parents.....   | 35.7              | (?)              | 34.3       | (?)              |
| Children.....  | 1,794.6           | 10               | 1,789.4    | 9                |
| Widowed mothers caring for child beneficiaries.....    | 414.6             | 2                | 417.2      | 2                |
| Noninsured persons aged 72 and over <sup>2</sup> ..... |                   |                  | 199.7      | 1                |
| Lump-sum death payments.....                           | 224.5             | 1                | 246.1      | 1                |

<sup>1</sup> Benefit payments in 1966 include the portions of (1) the general benefit increase and (2) benefits to children aged 18 to 21 who qualified under the school-attendance provisions—both of which were provided by the 1965 amendments—that were paid in fiscal year 1966 but were attributable retroactively to months in fiscal year 1965.

<sup>2</sup> Less than 0.5 percent.

<sup>3</sup> Benefits were effective for months beginning October 1966, and disbursements from the trust fund were first made to these beneficiaries in November 1966; the trust fund is reimbursed from the general fund of the Treasury for the costs of payments to beneficiaries with less than 3 quarters of coverage.

On June 30, 1967, about 23.2 million persons were receiving monthly benefits under the old-age, survivors, and disability insurance program. About 21.1 million of these persons were receiving monthly benefits from the old-age and survivors insurance trust fund. Average monthly family benefits on that date showed moderate increases over the corresponding averages a year earlier. This is illustrated, for selected beneficiary family groups, in table 6.

TABLE 6.—ESTIMATED AVERAGE MONTHLY BENEFITS FOR SELECTED FAMILY GROUPS RECEIVING BENEFITS UNDER THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM, END OF FISCAL YEARS 1966 AND 1967

| Beneficiary family group  | Average monthly amount per family |               |
|---|-----------------------------------|---------------|
|   | June 30, 1966                     | June 30, 1967 |
| Retired worker alone (no dependents receiving benefits).....                          | \$80                              | \$81          |
| Retired worker and wife, aged 62 and over, both receiving benefits <sup>1</sup> ..... | 142                               | 144           |
| Aged widow alone.....   | 74                                | 75            |
| Widowed mother and 2 children.....  | 220                               | 222           |
| Disabled worker alone (no dependents receiving benefits).....                         | 96                                | 96            |
| Disabled worker, wife (under age 65 <sup>2</sup> ), and 1 or more children.....       | 212                               | 213           |

<sup>1</sup> Excludes wife aged 62 to 64 with entitled children in her care.

<sup>2</sup> With entitled children in her care.

The assets of the old-age and survivors insurance trust fund at the end of fiscal year 1967 totaled \$23,515 million, consisting of \$21,764 million in the form of obligations of the U.S. Government or of federally sponsored agency obligations, and \$1,751 million in undisbursed balances. Table 7 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1966 and 1967.

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967

|  | June 30, 1966         |                          | June 30, 1967         |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | Par value             | Book value <sup>1</sup>  | Par value             | Book value <sup>1</sup>  |
| <b>Investments in public-debt obligations:</b>                         |                       |                          |                       |                          |
| <b>Public issues:</b>  |                       |                          |                       |                          |
| <b>Treasury bonds:</b>   |                       |                          |                       |                          |
| 2½-percent, 1964-69 .....  | \$55,180,000          | \$53,201,347.68          | \$55,180,000          | \$53,817,954.12          |
| 2½-percent, 1967-72 .....  | 250                   | 250.00                   | 250                   | 250.00                   |
| 2½-percent, investment series B, 1975-80 .....                         | 1,064,902,000         | 1,065,050,686.20         | 1,064,902,000         | 1,064,931,735.16         |
| 3-percent, 1995 .....  | 70,170,000            | 70,140,732.64            | 70,170,000            | 70,141,756.60            |
| 3½-percent, 1978-83 .....  | 60,200,000            | 59,198,783.12            | 60,200,000            | 59,257,968.32            |
| 3½-percent, 1985 .....   | 25,700,000            | 24,062,684.75            | 25,700,000            | 24,149,621.87            |
| 3½-percent, 1980 .....   | 449,450,000           | 455,702,226.27           | 449,450,000           | 455,266,024.47           |
| 3½-percent, 1990 .....   | 556,250,000           | 546,243,023.46           | 556,250,000           | 546,667,347.66           |
| 3½-percent, 1998 .....   | 552,037,000           | 542,055,536.56           | 552,037,000           | 542,364,241.72           |
| 3½-percent, 1968 .....   | 7,000,000             | 7,000,000.00             | 7,000,000             | 7,000,000.00             |
| 3½-percent, 1968 .....   | 17,450,000            | 17,450,000.00            | 17,450,000            | 17,450,000.00            |
| 3½-percent, 1974 .....   | 24,500,000            | 24,476,791.49            | 24,500,000            | 24,479,576.57            |
| 4-percent, 1969 .....  | 62,500,000            | 62,484,649.37            | 62,500,000            | 62,489,372.69            |
| 4-percent, 1970 .....  | 15,000,000            | 14,951,289.02            | 15,000,000            | 14,964,882.74            |
| 4-percent, 1971 .....  | 100,000,000           | 100,924,986.49           | 100,000,000           | 100,743,021.97           |
| 4-percent, 1973 .....  | 38,000,000            | 37,743,942.10            | 38,000,000            | 37,780,091.50            |
| 4-percent, 1980 .....  | 153,100,000           | 153,033,937.24           | 153,100,000           | 153,038,800.84           |
| 4½-percent, 1974 .....   | 61,934,000            | 61,887,998.15            | 61,934,000            | 61,894,064.39            |
| 4½-percent, 1989-94 .....  | 91,300,000            | 90,458,704.02            | 91,300,000            | 90,488,930.22            |
| 4½-percent, 1974 .....   | 6,352,000             | 6,365,821.44             | 6,352,000             | 6,364,056.96             |
| 4½-percent, 1975-85 .....  | 78,023,000            | 77,627,815.19            | 78,023,000            | 77,648,798.51            |
| 4½-percent, 1987-92 .....  | 33,000,000            | 35,244,173.69            | 33,000,000            | 35,137,730.65            |
| <b>Total investments in public issues .....</b>                        | <b>3,522,048,250</b>  | <b>3,505,305,378.88</b>  | <b>3,522,048,250</b>  | <b>3,506,076,226.96</b>  |
| <b>Obligations sold only to this fund (special issues):</b>            |                       |                          |                       |                          |
| <b>Certificates of indebtedness:</b>                                   |                       |                          |                       |                          |
| 4½-percent, 1968 .....   |                       |                          | 940,393,000           | 940,393,000.00           |
| <b>Notes:</b>  |                       |                          |                       |                          |
| 4½-percent, 1974 .....   |                       |                          | 2,720,279,000         | 2,720,279,000.00         |
| 4½-percent, 1968 .....   | 363,207,000           | 363,207,000.00           | 139,618,000           | 139,618,000.00           |
| 4½-percent, 1969 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 4½-percent, 1970 .....   | 296,526,000           | 296,526,000.00           | 296,526,000           | 296,526,000.00           |
| 4½-percent, 1971 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| <b>Bonds:</b>  |                       |                          |                       |                          |
| 2½-percent, 1970 .....   | 783,485,000           | 783,485,000.00           | 783,485,000           | 783,485,000.00           |
| 2½-percent, 1971 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 2½-percent, 1972 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 2½-percent, 1973 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 2½-percent, 1974 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 2½-percent, 1975 .....   | 919,934,000           | 919,934,000.00           | 919,934,000           | 919,934,000.00           |
| 3¼-percent, 1975 .....   | 160,077,000           | 160,077,000.00           | 160,077,000           | 160,077,000.00           |
| 3¼-percent, 1976 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 3¼-percent, 1977 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 3¼-percent, 1978 .....   | 658,444,000           | 658,444,000.00           | 658,444,000           | 658,444,000.00           |
| 4½-percent, 1978 .....   | 421,567,000           | 421,567,000.00           | 421,567,000           | 421,567,000.00           |
| 4½-percent, 1979 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| 4½-percent, 1980 .....   | 1,080,011,000         | 1,080,011,000.00         | 1,080,011,000         | 1,080,011,000.00         |
| <b>Total obligations sold only to this fund (special issues) .....</b> | <b>14,403,350,000</b> | <b>14,403,350,000.00</b> | <b>17,840,433,000</b> | <b>17,840,433,000.00</b> |
| <b>Total investments in public debt obligations .....</b>              | <b>17,925,398,250</b> | <b>17,908,655,378.88</b> | <b>21,362,481,250</b> | <b>21,346,509,226.96</b> |

TABLE 7.—ASSETS OF THE OLD-AGE AND SURVIVORS TRUST FUND, BY TYPE, AT END OF FISCAL YEARS 1966 AND 1967—Continued

|   | June 30, 1966    |                         | June 30, 1967  |                         |
|---|------------------|-------------------------|----------------|-------------------------|
|   | Par value        | Book value <sup>1</sup> | Par value      | Book value <sup>1</sup> |
| Investments in federally-sponsored agency obligations:                  |                  |                         |                |                         |
| Agency securities:  |                  |                         |                |                         |
| Federal National Mortgage Association debentures:                       |                  |                         |                |                         |
| 5¼ percent, 1969 .....  |                  |                         | \$25,000,000   | \$25,055,862.10         |
| 5½ percent, 1968 .....  |                  |                         | 10,000,000     | 9,996,354.20            |
| 6 percent, 1969 .....   |                  |                         | 41,500,000     | 41,520,894.07           |
| Federal intermediate credit bank debentures:                            |                  |                         |                |                         |
| 5.15 percent, 1967 .....  |                  |                         | 17,000,000     | 17,000,000.00           |
| 6.20 percent, 1967 .....  |                  |                         | 10,000,000     | 10,000,000.00           |
| Federal home loan bank bonds:   |                  |                         |                |                         |
| 5¾ percent, 1968 .....  |                  |                         | 25,000,000     | 25,020,833.35           |
| 5½ percent, 1967 .....  |                  |                         | 18,000,000     | 17,996,250.00           |
| 6 percent, 1967 .....   |                  |                         | 26,000,000     | 25,995,666.65           |
| 6¼ percent, 1967 .....  |                  |                         | 30,000,000     | 30,003,750.00           |
| Federal land bank bonds:  |                  |                         |                |                         |
| 5¾ percent, 1967 .....  |                  |                         | 15,000,000     | 15,000,000.00           |
| Participation certificates:   |                  |                         |                |                         |
| Federal assets liquidation trust—Federal National Mortgage Association: |                  |                         |                |                         |
| 5.10 percent, 1987 .....  |                  |                         | 50,000,000     | 50,000,000.00           |
| 5.20 percent, 1982 .....  |                  |                         | 100,000,000    | 100,000,000.00          |
| 5½ percent, 1972 .....  |                  |                         | 50,000,000     | 50,000,000.00           |
| Total investments in federally-sponsored agency obligations .....       |                  |                         | 417,500,000    | 417,589,610.37          |
| Total investments .....   | \$17,925,398,250 | \$17,908,655,378.88     | 21,779,981,250 | 21,764,098,837.33       |
| Undisbursed balances .....  |                  | 1,963,580,271.47        |                | 1,751,290,271.49        |
| Total assets .....  |                  | 19,872,235,650.35       |                | 23,515,389,108.82       |

<sup>1</sup> Par value, plus unamortized premium, less discount outstanding.

The net increase in the par value of the investments owned by the fund during the fiscal year 1967 amounted to \$3,855 million. New securities at a total par value of \$28,324 million were acquired during the fiscal year through the investment of receipts and the reinvestment of funds made available from the maturity or sale of securities. The par value of securities redeemed during the fiscal year was \$24,436 million. In addition, \$34 million of federally-sponsored agency securities were sold, providing additional income to the fund in the form of a profit amounting to about \$100,000. A summary of transactions for the fiscal year, by type of security, is presented in table 8.

TABLE 8.—STATEMENT OF TRANSACTIONS IN PUBLIC-DEBT AND IN FEDERALLY-SPONSORED AGENCY SECURITIES FOR THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND DURING THE FISCAL YEAR 1967

[All amounts represent par values]

|  | Acquisitions    | Dispositions    |
|--|-----------------|-----------------|
| <b>Public-debt obligations sold only to this fund (special issues):</b>    |                 |                 |
| Certificates of indebtedness:  |                 |                 |
| 4 $\frac{3}{8}$ percent, 1967.....   | \$1,947,378,000 | \$1,947,378,000 |
| 4 $\frac{1}{2}$ percent, 1967.....   | 2,755,547,000   | 2,755,547,000   |
| 4 $\frac{3}{8}$ percent, 1967.....   | 1,131,154,000   | 1,131,154,000   |
| 4 $\frac{3}{8}$ percent, 1967.....   | 7,679,794,000   | 7,679,794,000   |
| 4 $\frac{3}{8}$ percent, 1968.....   | 940,393,000     | 0               |
| 5 percent, 1967.....   | 5,165,577,000   | 5,165,577,000   |
| 5 $\frac{1}{8}$ percent, 1967.....   | 3,986,651,000   | 3,986,651,000   |
| 5 $\frac{3}{8}$ percent, 1967.....   | 1,511,831,000   | 1,511,831,000   |
| Notes:   |                 |                 |
| 4 $\frac{3}{8}$ percent, 1974.....   | 2,720,279,000   | 0               |
| 4 $\frac{7}{8}$ percent, 1968.....   | 0               | 223,589,000     |
| Total public-debt obligations sold only to this fund (special issues)..... | 27,838,604,000  | 24,401,521,000  |
| <b>Federally-sponsored agency obligations:</b>                             |                 |                 |
| Agency securities:   |                 |                 |
| Federal National Mortgage Association debentures:                          |                 |                 |
| 5 $\frac{1}{8}$ percent, 1969.....   | 25,000,000      | 0               |
| 5 $\frac{7}{8}$ percent, 1968.....   | 10,000,000      | 0               |
| 6 percent, 1969.....   | 41,500,000      | 0               |
| Federal intermediate credit bank debentures:                               |                 |                 |
| 5.15 percent, 1967.....  | 17,000,000      | 0               |
| 6.20 percent, 1967.....  | 10,000,000      | 0               |
| Federal home loan bank bonds:  |                 |                 |
| 5 $\frac{3}{8}$ percent, 1968.....   | 25,000,000      | 0               |
| 5 $\frac{7}{8}$ percent, 1967.....   | 18,000,000      | 0               |
| 6 percent, 1967.....   | 40,000,000      | 14,000,000      |
| 6 $\frac{1}{4}$ percent, 1967.....   | 50,000,000      | 20,000,000      |
| Federal land bank bonds:   |                 |                 |
| 5 $\frac{7}{8}$ percent, 1967.....   | 15,000,000      | 0               |
| Bank for cooperative debentures:   |                 |                 |
| 5.95 percent, 1967.....  | 14,000,000      | 14,000,000      |
| 6 $\frac{1}{4}$ percent, 1967.....   | 20,000,000      | 20,000,000      |
| Participation certificates:  |                 |                 |
| Federal assets liquidation trust, Federal National Mortgage Association:   |                 |                 |
| 5.10 percent, 1987.....  | 50,000,000      | 0               |
| 5.20 percent, 1982.....  | 100,000,000     | 0               |
| 5 $\frac{1}{2}$ percent, 1972.....   | 50,000,000      | 0               |
| Total federally-sponsored agency obligations.....                          | 485,500,000     | 68,000,000      |
| Total transactions.....  | 28,324,104,000  | 24,469,521,000  |

The 1956 amendments provided that the public-debt obligations issued for purchase by the old-age and survivors insurance trust fund and the disability insurance trust fund shall have maturities fixed with due regard for the needs of the funds. Under this provision, the general practice has been to spread the maturity dates for the holdings of special issues as nearly as practicable in equal amounts over a 15-year

period. Thus, on June 30, 1967, special issues held by the old-age and survivors insurance trust fund were distributed in equal amounts of \$1,080 million maturing in each of the years 1968-80 (table 7). In addition, \$1,080 million was invested in 5-year notes bearing 4 $\frac{7}{8}$  percent interest and maturing on June 30, 1971, and \$2,720 million was invested in 7-year notes bearing 4 $\frac{3}{4}$  percent interest and maturing on June 30, 1974.

The 5-year notes were acquired on June 30, 1966, under the following circumstances. If, on June 30, 1966, trust-fund holdings of special issues were spread equally over a 15-year period, it would have been necessary for the Treasury to issue, for purchase by the trust fund, 15-year bonds maturing in 1981. Such issue—with more than 5 years to maturity—would have been required, under the then existing law (31 U.S.C. 752 and 753(a)), to bear an interest rate no higher than 4 $\frac{1}{4}$  percent. On the other hand, the application of section 201(d) of the Social Security Act, relating to the determination of the interest rate on special issues, resulted in a rate of 4 $\frac{7}{8}$  percent. Accordingly, a sum of \$1,080 million that would have been invested in bonds maturing in 1981 was, instead, invested in notes for the longest possible duration to maturity; that is, in 4 $\frac{7}{8}$ -percent notes maturing June 30, 1971. The 7-year notes were acquired on June 30, 1967, under similar circumstances; however, the law (31 U.S.C. 753(a)) limiting the maturity date for notes to not more than 5 years from date of purchase had been amended (Public Law 90-39, approved June 30, 1967), extending the limitation to 7 years. (Similarly, with respect to assets of the disability insurance trust fund at the end of fiscal year 1967, some \$75 million was invested in 4 $\frac{7}{8}$ -percent 5-year notes maturing on June 30, 1971, and \$309 million was invested in 4 $\frac{3}{4}$ -percent 7-year notes maturing on June 30, 1974.)

#### SUMMARY OF THE OPERATIONS OF THE FEDERAL DISABILITY INSURANCE TRUST FUND, FISCAL YEAR 1967

A statement of the income and disbursements of the Federal disability insurance trust fund during fiscal year 1967 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 9.

The total assets of the disability insurance trust fund amounted to \$1,686 million on June 30, 1966. These assets increased by \$335 million during the fiscal year, to \$2,022 million at the end of the year.